

Additional Question 11: *To what extent do federal subsidies impact electric rates for other regions of the country (ex: the Tennessee Valley Authority, Western Area Power Administration)?*

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### Executive Summary

1. Federal subsidies to federal power authorities and administrations ranged from \$119 to \$987 million in 2010. There are not direct expenditures by the federal government. The subsidies are based on subsidized cost of capital for borrowing and the estimates vary based on different benchmark rates used to calculate the subsidies
  2. While the total subsidy amount may not be insignificant, it does not appear to be a major factor impacting electric rates. Structural factors, such as electricity consumption and fuel, have a bigger influence over rates
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In response to congressional inquiries, the U.S. Energy Information Administration (EIA) published a report in 2011, "The Energy Direct Federal Financial Interventions and Subsidies in Energy in Fiscal Year 2010." This report documents subsidies for federal power authorities or administrations that serve targeted categories of electricity consumers in several geographic regions of the country. These entities are:

- Tennessee Valley Authority (TVA)
- Bonneville Power Administration (BPA)
- Western Area Power Administration (WAPA)
- Southeastern Power Administration (SEPA)
- Southwestern Power Administration (SWPA)

These entities were initially established to provide power to under-served rural areas and provide flood control and related economic benefits from development. These entities bring to market large amounts of electricity generated primarily from hydro-electric facilities with the stipulation that "preference in the sale of such power and energy shall be given to public bodies and cooperatives."<sup>1</sup> The federal government also indirectly supports portions of the electricity industry through loans and loan guarantees made by the U.S. Department of Agriculture's Rural Utilities Service (RUS) at interest rates generally below those available to investor-owned utilities. The current and historical subsidies are not insignificant. In the past (e.g., before 1959 for TVA), these entities were financed through federal appropriations. As noted by the EIA, there are not direct expenditures provided to the federal utilities by the federal government. The

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<sup>1</sup> U.S. Energy Information Administration (EIA), "The Energy Direct Federal Financial Interventions and Subsidies in Energy in Fiscal Year 2010," August 1, 2011, p. 1, citing Flood Control Act of December 2, 1944 (58 Stat. 890; 16 U.S.C. 825s). Report available at: <http://www.eia.gov/analysis/requests/subsidy/pdf/subsidy.pdf> (accessed 4/9/13).

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current subsidies are for the subsidized cost of capital.<sup>2</sup> For 2010, the EIA estimates that the total value of support provided to federal utilities and Rural Utility Service borrowers ranges from \$119 to \$987 million. The difference is based on different assumed benchmark interest rates.<sup>3</sup>

The EIA report explains in detail the role of these entities and their relationship to the federal government, and gives estimates of the federal subsidies.

**2. While the total subsidy amount may not be insignificant, it does not appear to be a major factor impacting electric rates. Structural factors, such as electricity consumption and fuel, have a bigger influence over rates.**

Electric rates are largely driven by electric consumption, which explains 60% of the variation in average rates across the states. Proximity to inexpensive coal for fuel, access to low-cost hydroelectric generation, and reliance on coal generation are additional structural factors that explain another 25% of the variation in rates across the states.

(See Overall Question 1 – Structural Drivers of Electric Rates response for full detail on the structural factors that drive differences in electric rates between states)

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<sup>2</sup> Subsidies are in the form of their ability to borrow directly from the Treasury and access low-cost federal loans and loan guarantees. In addition, TVA and BPA have access to lower-cost private financing due to the financial markets' perception of an implied federal guarantee for their non-federal obligations. See EIA, "Energy Direct," p. 39.

<sup>3</sup> EIA, "Energy Direct," p. 58.